

Message Text

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72

ACTION ARA-20

INFO OCT-01 ISO-00 SPC-03 SAM-01 AID-20 EB-11 NSC-10

RSC-01 CIEP-02 TRSE-00 SS-20 STR-08 OMB-01 CEA-02

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TAGS: ECON, EIND, AR

SUBJECT: THE BUSINESS CLIMATE IN ARGENTINA: THE PHARMACEUTICAL INDUSTRY

1. IN MY INITIAL CONVERSATIONS WITH MEMBERS OF THE AMERICAN BUSINESS COMMUNITY IN ARGENTINA, I HAVE FOUND A DEEP CONCERN OVER THE WAY THE BUSINESS AND INVESTMENT CLIMATE IS DEVELOPING, AND OVER THE ARGENTINE GOVERNMENT'S FAILURE TO RESPOND ADEQUATELY TO THE PROBLEMS ITS POLICIES HAVE CREATED FOR BUSINESS IN GENERAL. THIS TELEGRAM REPORTS SPECIFICALLY ON THE PROBLEMS OF THE PHARMACEUTICAL INDUSTRY, REPRESENTATIVES OF WHICH CALLED ON ME THIS WEEK. THEIR VIEWS ARE TYPICAL OF THOSE EXPRESSED TO MY BY A NUMBER OF U.S. BUSINESSMEN SINCE MY ARRIVAL.

2. THE PHARMACEUTICAL INDUSTRY IN ARGENTINA INCLUDES SUBSIDIARIES OF MOST OF THE MAJOR U.S. AND EUROPEAN FIRMS AS WELL AS A NUMBER OF SMALL ARGENTINE-OWNED FIRMS, MANY OF WHICH OPERATE ON THE BASIS OF PIRATED ITALIAN TECHNOLOGY. THE AMERICAN PHARMACEUTICAL INDUSTRY PEOPLE WHO VISITED ME FEEL THEIR BASIC PROBLEM LIES IN THE LACK OF ABILITY OF THE MINISTER OF ECONOMY AND HIS PRINCIPAL ASSISTANTS WHO, THEY BELIEVE, HAVE NO REAL

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GRASP OF THE PROBLEMS FACED BY LARGE FIRMS IN TRYING TO COMPLY

WITH IMPROVISED AND SOMETIMES CONTRADICTORY ECONOMIC POLICIES. THEY SAY THERE IS SIMPLY NO MECHANISM WHEREBY THEY CAN BRING SUCH PROBLEMS TO THE ATTENTION OF THE GOVERNMENT AND HAVE THE GOVERNMENT MAKE A GENUINE AND EFFECTIVE EFFORT TO HELP SOLVE THEM.

3. THE GOA HAS MAINTAINED FAIRLY RIGID PRICE CONTROLS SINCE THE PERONIST RETURN TO POWER ON MAY 25, 1973. SOME INDUSTRIES WERE ORDERED TO ROLL BACK PRICES. THE ROLL-BACK IN THE PHARMACEUTICAL INDUSTRY WAS ABOUT 21 PERCENT. MANUFACTURERS TELL US THEY ARE LOSING CONSIDERABLE MONEY ON PHARMACEUTICALS AND ARE BARELY MANAGING TO SURVIVE FROM PROFITS FROM TOILETRIES. SOME MONTHS AGO, THEY ASKED FOR PRICE INCREASES AVERAGING 17.5 PERCENT, WHICH WOULD PUT THEM SLIGHTLY ABOVE THE BREAK EVEN POINT. AFTER THREE MONTHS THEY FINALLY RECEIVED A LETTER FROM THE SECRETARY OF COMMERCE ASKING FOR "FURTHER" INFORMATION. THE REQUESTED INFORMATION HAD BEEN INCLUDED AS AN ATTACHMENT TO THE ORIGINAL LETTER. THIS, THEY FEEL, IS ILLUSTRATIVE OF THE GOA'S INABILITY OR UNWILLINGNESS TO DEAL EFFECTIVELY WITH THEIR PROBLEMS. ANOTHER ILLUSTRATION IS THAT THEY UNDERSTAND THAT THE GOVERNMENT PLANS TO RAISE TAXES ON TOILET ARTICLES BY 4 PERCENTAGE POINTS, BUT DO NOT PLAN TO ALLOW THIS TO BE PASSED ON IN HIGHER PRICES TO CONSUMERS.

4. THE COMPANIES SAY THAT THEY WILL SIMPLY BE UNABLE TO FACE ANY FURTHER EROSION OF THEIR POSITION. THEY TELL ME THE PHARMACEUTICAL MANUFACTURER'S ASSOCIATION LAST WEEK SENT A TELEGRAM TO THE SECRETARY OF COMMERCE URGENTLY REQUESTING PRICE RELIEF AND INFORMING HIM THAT IF RELIEF IS NOT GRANTED, SOME COMPANIES WILL BE FORCED OUT OF BUSINESS.

5. WHILE THEY HAVE NOT YET RECEIVED AN ANSWER TO THEIR TELEGRAM, THEY SAY THAT THE GOVERNMENT'S ATTITUDE IS THAT THEY SHOULD NOT COMPLAIN THAT THEIR PRICES ARE CONTROLLED BECAUSE THE PRICES OF THEIR SUPPLIERS ARE ALSO CONTROLLED, AND BECAUSE WAGES HAVE NOT BEEN RAISED IN THE LAST 7 MONTHS. MANUFACTURERS, HOWEVER, TELL ME THAT THEIR SUPPLIERS ARE USING A NUMBER OF DEVICES TO EXTRACT MORE FROM THEM, SUCH AS UNDERSHIPPING, AND TIE-IN DEALS ON UNWANTED BUT UNCONTROLLED PRODUCTS AT HIGH PRICES. IF A MANUFACTURER COMPLAINS, HE NO LONGER GETS SUPPLIES.

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6. I HAVE OFFERED, IF THERE IS A CONCENSUS AMONG THE U.S. FIRMS IN THE INDUSTRY THAT I DO SO, TO MENTION THE SERIOUSNESS OF THIS SITUATION TO THE MINISTER OF ECONOMY WHEN I CALL ON HIM IN THE NEAR FUTURE. IN THIS RESPECT I WOULD APPRECIATE ANY PERTINENT GUIDANCE FROM DEPARTMENT.

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